

CITY OF LA PORTE CITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

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City of La Porte City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Lubben	Mayor	Jan 2010
Jeff Krop	Council Member	Jan 2008
Cliff McFarland	Council Member	Jan 2008
Kathy Norris	Council Member	Jan 2008
Kyle Jensson	Council Member	Jan 2010
April Neuman	Council Member	Jan 2010
Julie Petersen	Clerk	
Jeffrey Larison	Treasurer	
Robert Braun	Attorney	

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of La Porte City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated January 9, 2007 on our consideration of the City of La Porte City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 10 and 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of La Porte City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the

financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 9, 2007

CITY OF LA PORTE CITY

202 Main Street, La Porte City, Iowa 50651
Phone: (319) 342-3396
Fax: (319) 342-3770

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of La Porte City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. It is to be used in conjunction with the City's Annual Report and is intended to explain the significant changes in financial position and differences in operations between the current and prior years.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis

- introduces the basic financial statements and provides an analytical overview of the City's financial activities

Government-wide Financial Statement

- consists of a Statement of Activities and Net Assets
- provides information about the activities of the City as a whole and presents an overall view of the City's finances

Fund Financial Statements

- tells how governmental services were financed in the short term as well as what remains for future spending
- report the City's operations in more detail than the government-wide statement by providing information about the most significant funds

Notes to Financial Statements

- provide additional information essential to a full understanding of the data provided in the basic financial statements

Required Supplementary Information

- further explains and supports the financial statements with a comparison of the City's budget for the year

Other Supplementary Information

- provides detailed information about the non-major governmental funds

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting is a basis other than generally accepted accounting principals, and does not give effect to accounts receivable, accounts payable and accrued items. Therefore, when reviewing the

financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statements:

To aid in the understanding of the Statement of Activities, some additional explanation is needed. All receipts and disbursements are categorized as either governmental activities or business-type activities. **Governmental Activities** are financed primarily by property tax, local option sales tax, road use tax and state and federal grants. They are defined as follows:

Public Safety – includes police operations, fire protection, ambulance service, building inspections and animal control services.

Public Works – includes roads, bridges and sidewalks, equipment replacement, street lighting, sanitation, traffic safety, snow removal and street cleaning.

Health and Social Services – includes welfare assistance

Culture and Recreation – includes library services, parks, recreation, pool, community center and museum

Community and Economic Development – includes economic development, housing rehab, and tax increment financing

General Government – includes mayor, city council, city clerk, city treasurer, legal services, and city hall administrative and building needs

Debt Service – includes principal and interest payments for debt repayment

Capital Projects – major projects including streets, the family aquatic center, and a new housing development

Business Type Activities include the ambulance service and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements:

The City has two kinds of funds:

Governmental funds account for most of the City's basic services and include the General Fund, the Special Revenue Funds such as Road Use Tax and Tax Increment Financing, the Debt Service Fund, the Capital Projects Fund, the Equipment Replacement Fund, and the Trust Funds. The Governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

Proprietary funds are also known as Business-Type funds. When the City charges customers for the services it provides, these services are generally reported as Proprietary funds. These funds, which include Ambulance and Sewer services, are generally self-sufficient. The required financial statements for Proprietary Funds include a statement of cash receipts, disbursements and changes in cash balances.

Basic Financial Statements

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in this Report and the information they provide.

- **Statement of Activities and Net Assets – Cash Basis (Exhibit A)**

The first section of the statement presents the eight governmental **Functions / Programs**. *Disbursements* for each are listed in the first column, with *Charges for Service* and other receipts shown to the right. The result is a Net (Expense) or Revenue, which is helpful in determining the extent to which the programs support themselves.

The Next section lists **General Receipts**, including *Property Tax*, *Local Option Sales Tax* and *Unrestricted Interest*. These revenues are not listed in the first section because they are not generated from the direct operation of the functions/programs.

Finally, the report shows the net assets end of year as \$1,987,842, compared to net assets beginning of the year of \$1,940,009, or an increase of \$47,833.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances, Governmental Funds (Exhibit B)**

The City maintains ten funds under the “Governmental” classification. The column titled *General* includes activity in the General and the Economic Development funds. The column titled *Other Nonmajor Governmental Funds* includes activity for the Equipment Replacement Fund, the Road Use Tax Fund, the Trust I (Employee Benefits) Fund, the TIF Fund, the Low to Moderate Income Fund (required for the Pipho Development TIF Project), and the Trust II Fund (established to track memorials, bequests, and contributions). More detailed information on these nonmajor funds is included on the *Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Governmental Funds* (Schedule 1).

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Governmental Funds (Exhibit C)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances, Proprietary Fund (Exhibit D)**

Proprietary Funds are used to report Business Type Activities (activities that are primarily self-supporting through service charges and user fees. The two proprietary funds for the City are the Ambulance and the Sewer Funds.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Proprietary Funds (Exhibit E)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit D.

Budgetary Highlights

Over the course of the fiscal year the City amended its budget only one time. The amendment was approved on May 22, 2006 and provided for additional disbursements in City departments. Capital Projects and the Housing Rehabilitation Grant in the Economic Development Program had the highest dollar impact on this amendment. The City had sufficient cash balances to absorb these additional costs.

2006 Financial Highlights

- Revenues (not including transfers in) increased \$1,651,829, or 65%, from Fiscal Year 2005 to 2006. This increase is primarily attributable to DOT and Housing Rehab grants totaling \$191,000 and bond proceeds of \$2,080,000 for the Family Aquatic Center in 2006, compared to \$600,000 in 2005. Property taxes collected increased \$61,191 in FY 2006, which included an increase of \$10,000 in TIF taxes.
- From FY 2005 to FY 2006 disbursements (not including transfers out) increased overall by 103%, or \$2,090,125. Community and Economic Development increased \$300,000 as a result of the Housing Rehab Program; Debt Service obligations increased \$100,000; and Capital Projects -- which include the Tama Road rehab and the new Family Aquatic Center -- increased \$1,730,000.
- The City's total cash basis net assets increased approximately 1.5%, or \$29,979 from June 30, 2005 to June 30, 2006. Of this amount the assets of governmental activities increased \$66,392 and the assets of the business type activities decreased \$18,559. The Funds not Required to be Budgeted also increased \$17,854. This total represents interest, contributions, and payments from the Trust II Fund, which includes memorial contributions, police task force collections and proceeds from fundraisers.

Debt Administration

As of June 30, 2006, the City had \$3,100,000 in debt outstanding compared to \$1,164,955 in 2005. The increase results from a \$2,080,000 general obligation bond issue in December of 2005.

Outstanding Debt at Year End

	June 30,	
	<u>2006</u>	<u>2005</u>
General obligation capital loan notes (FY06)	\$2,080,000	0
General obligation capital loan notes (FY05)	540,000	600,000
General obligation capital loan notes (FY03)	480,000	540,000
Equipment Note	<u>0</u>	<u>24,955</u>
Total	<u>\$ 3,100,00</u>	<u>1,164,955</u>

The General Obligation Notes FY06 were issued for demolition of the existing city pool and construction of the new Family Aquatic Center. The General Obligation Notes FY05 were issued for the 2004 street rehabilitation, railroad crossing and Tama Road projects. The General Obligation Notes FY03 were issued for the 2003 street rehabilitation project. The Equipment Note was issued in 2002 for the purchase of the street sweeper.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,100,000 is below its constitutional debt limit of \$4.47 million.

Tif Rebates

The City certified TIF debt for three projects in Fiscal Year 05-06, to be collected in Fiscal Year 06-07:

Don & Marian Collins (\$1,068) – the City loaned funds to the Collins' for fire safety improvements in the upper level of their commercial building. The property taxes generated from the improved value of this property will be applied towards their annual loan payment.

Greg & Donna Piphio (\$40,000) – for Sunset Knolls Ninth Addition, the City agreed to pay to the Piphio's property taxes generated from the 13 lots in this housing division. This is the fourth of ten years for this certification.

Family Aquatic Center (\$110,000) – when approving the issuance of debt for the new aquatic center, the City Council approved using a combination of TIF funds and a debt service levy to make the annual payments on the bonds. This is the first of fifteen years for this certification.

Economic Factors And Next Year's Budgets

The City of La Porte City's elected and appointed officials and department heads considered many factors when setting the fiscal year 2007 budget, tax rates and fees that will be charged for various City activities.

Department heads were encouraged to keep expenses in line with the 05-06 fiscal year. Although property tax valuations increased, the cost associated with providing City services including health insurance, liability insurance and workers compensation insurance increased.

The City will issue general obligation debt in fiscal year 07 for expenses tied to the development of a new residential housing area. Phase 1 of the new Sweet Subdivision will include approximately 30 housing lots and the infrastructure is expected to be completed in the spring of 2007.

The City Council continued to support capital planning initiatives and approved reserving \$122,000 for future equipment and improvements.

Contacting The City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Julie Petersen, City Clerk, 202 Main Street, La Porte City, Iowa.

Basic Financial Statements

City of La Porte City
Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 422,394	20,253	43,678	4,667
Public works	509,789	142,613	233,150	163,635
Health and social services	4,994	3,288	-	-
Culture and recreation	218,355	45,081	7,087	26,208
Community and economic development	251,901	-	-	66,162
General government	107,464	18,866	9,195	1,621
Debt service	199,105	-	-	-
Capital projects	2,215,782	-	-	25,687
Total governmental activities	3,929,784	230,101	293,110	287,980
Business type activities:				
Sewer	124,696	213,358	-	-
Ambulance	67,731	78,894	-	-
Total business type activities	192,427	292,252	-	-
Total	\$ 4,122,211	522,353	293,110	287,980

General Receipts:

Property tax levied for:
 General purposes
 Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Bond proceeds
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Equipment Replacement
 Debt Service
 Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(353,796)	-	(353,796)
29,609	-	29,609
(1,706)	-	(1,706)
(139,979)	-	(139,979)
(185,739)	-	(185,739)
(77,782)	-	(77,782)
(199,105)	-	(199,105)
(2,190,095)	-	(2,190,095)
(3,118,593)	-	(3,118,593)
-	88,662	88,662
-	11,163	11,163
-	99,825	99,825
(3,118,593)	99,825	(3,018,768)
552,899	-	552,899
117,202	-	117,202
254,023	-	254,023
31,707	16,303	48,010
10,909	3,558	14,467
2,080,000	-	2,080,000
138,245	(138,245)	-
3,184,985	(118,384)	3,066,601
66,392	(18,559)	47,833
1,438,258	501,751	1,940,009
\$ 1,504,650	483,192	1,987,842
329,112	-	329,112
23,551	-	23,551
143,904	-	143,904
1,008,083	483,192	1,491,275
\$ 1,504,650	483,192	1,987,842

City of La Porte City
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
Receipts:					
Property tax	\$ 432,533	117,202	-	117,683	667,418
Other city tax	258,282	561	-	-	258,843
Licenses and permits	19,267	-	-	-	19,267
Use of money and property	28,685	2,263	25,687	13,992	70,627
Intergovernmental	74,738	-	-	233,240	307,978
Charges for service	210,834	-	-	-	210,834
Miscellaneous	94,675	-	126,000	22,289	242,964
Total receipts	1,119,014	120,026	151,687	387,204	1,777,931
Disbursements:					
Operating:					
Public safety	381,954	-	-	40,440	422,394
Public works	252,423	-	-	257,366	509,789
Health and social services	4,994	-	-	-	4,994
Culture and recreation	209,523	-	-	8,832	218,355
Community and economic development	232,085	-	-	19,816	251,901
General government	98,677	-	-	8,787	107,464
Debt service	-	199,105	-	-	199,105
Capital projects	-	-	2,215,782	-	2,215,782
Total disbursements	1,179,656	199,105	2,215,782	335,241	3,929,784
Excess of receipts over disbursements	(60,642)	(79,079)	(2,064,095)	51,963	(2,151,853)
Other financing sources (uses):					
Bond proceeds	-	2,080,000	-	-	2,080,000
Operating transfers in	189,404	70,115	2,267,282	137,378	2,664,179
Operating transfers out	(63,043)	(2,080,000)	(227,397)	(155,494)	(2,525,934)
Total other financing sources (uses)	126,361	70,115	2,039,885	(18,116)	2,218,245
Net change in cash balances	65,719	(8,964)	(24,210)	33,847	66,392
Cash balances beginning of year	493,741	32,515	263,968	648,034	1,438,258
Cash balances end of year	\$ 559,460	23,551	239,758	681,881	1,504,650
Cash Basis Fund Balances					
Reserved:					
Debt service	-	-	-	-	-
Capital projects	-	-	239,758	-	239,758
Unreserved:					
General fund	559,460	-	-	-	559,460
Special revenue funds	-	23,551	-	537,977	561,528
Permanent fund	-	-	-	143,904	143,904
Total cash basis fund balances	\$ 559,460	23,551	239,758	681,881	1,504,650

See notes to financial statements

City of La Porte City

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2006

Total governmental funds cash balances (page 14)	\$ 1,504,650
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net assets of governmental activities (page 13)	<u>\$ 1,504,650</u>
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Net change in cash balances (page 14)	\$ 66,392
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of governmental activities (page 13)	<u>\$ 66,392</u>
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See notes to financial statements

City of La Porte City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Sewer	Ambulance	Total
Operating receipts:			
Use of money and property	\$ 15,630	673	16,303
Intergovernmental	-	2,256	2,256
Charges for service	213,358	76,638	289,996
Miscellaneous	-	3,558	3,558
Total operating receipts	228,988	83,125	312,113
Operating disbursements:			
Business type activities	124,696	67,731	192,427
Total operating disbursements	124,696	67,731	192,427
Excess (deficiency) of operating receipts over (under) operating disbursements	104,292	15,394	119,686
Operating transfers in (out)	(117,660)	(20,585)	(138,245)
Net change in cash balances	(13,368)	(5,191)	(18,559)
Cash balances beginning of year	449,378	52,373	501,751
Cash balances end of year	\$ 436,010	47,182	483,192
Cash Basis Fund Balances			
Unreserved	436,010	47,182	483,192
Total cash basis fund balances	\$ 436,010	47,182	483,192

See notes to financial statements

City of La Porte City

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Fund

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 16)	\$ 483,192
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Cash basis net assets of business type activities (page 13)	<u>\$ 483,192</u>
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Net change in cash balances (page 16)	\$ (18,559)
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Change in cash balance of business type activities (page 13)	<u>\$ (18,559)</u>
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See notes to financial statements

City of La Porte City
Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of La Porte City is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of La Porte City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements present the City of La Porte City (the primary government) and excludes all component units. A component unit is an entity which is legally separate from the City, but is so intertwined with the City that they are, in substance, part of the City. However, the financial transactions of this component unit has not been displayed because they are not material or use a different basis of accounting.

The La Porte City Utilities, a component unit of the city, is established under Chapter 388 of the Code of Iowa. The La Porte City Utilities is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Utility is governed by a three member board appointed by the Mayor and approved by the City Council. La Porte City Utilities is a public utility providing electrical service to the citizens of La Porte City. Complete financial statements can be obtained from the Utility's administrative office.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: City of Waterloo Building Department, Townships of the following: Big Creek, Spring Creek, Eagle Poyner, and Cedar in Black Hawk County, Bruce and Cedar in Benton County, Tri-County Drug Task Force, Northeast Iowa Response Group, Mutual Aid Fire – Buchanan County, Digital Data – Black Hawk County, Criminal Justice Info System, Black Hawk Consolidated Public Safety Communications Agreement, Mutual Aid Fire – Black Hawk County, Union Community School District – Tennis Courts and Use of Buses, Mutual Aid Fire – City of Waterloo, and Mutual Aid Fire – Covenant Health System.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for major ongoing capital projects of the city.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Ambulance Fund accounts for the operations and user fees for Ambulatory services provided by the City.

C. Measurement Focus and Basis of Accounting

The City of La Porte City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2006 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Certificates of Deposit	\$ 842,913	\$ 842,913	Various Dates

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,007,812 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2007	\$ 230,000	115,050
2008	235,000	107,715
2009	245,000	100,008
2010	255,000	91,535
2011	265,000	82,420
2012- 2021	1,870,000	368,695
Total	\$ 3,100,000	865,423

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$32,131, \$31,319, and \$30,193, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination

payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 1,324
Sick leave	<u>49,706</u>
Total	<u>\$ 51,030</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Trust	64,375
Capital Projects	Sewer	187,282
Sewer	Capital Projects	187,282
Capital Projects	Debt Service	2,080
Debt Service	Special Revenue – Road Use	15,000
	General	15,000
Equipment Replacement	General	45,000
	Sewer	15,000
	Ambulance	20,000
Special Revenue – Road Use	Equipment Replacement	42,490
Economic Development	Sewer	102,660
Debt Service	Capital Projects	40,115
Economic Development	Special Revenue – TIF	20,600
LMI – Urban Renewal	Special Revenue – TIF	11,260
Economic Development	LMI – Urban Renewal	1,590

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,291 during the year ended June 30, 2006.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Litigation

The City is not subject to any pending litigation.

(10) Subsequent Events

The City entered into an agreement after year-end to develop an area of land known as the Sweet area. The City purchased the Sweet land in May 2006 and plans to develop it into a housing subdivision. The City issued General Obligation Capital Loan Notes in the amount of \$920,000 for 4.047%, and accepted a bid from Horsfield Construction of Epworth for the development of the Sweet Subdivision First Addition for \$698,195.92.

Required Supplementary Information

City of La Porte City

Budgetary Comparison Schedule
of Receipts, disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 615,292	-	-
Tax increment financing collections	52,126	-	-
Other city tax	258,843	-	-
Licenses and permits	19,267	-	-
Use of money and property	70,627	16,303	4,097
Intergovernmental	307,978	2,256	3,378
Charges for service	210,834	289,996	-
Miscellaneous	242,964	3,558	21,589
Total receipts	1,777,931	312,113	29,064
Disbursements:			
Public safety	422,394	-	8,510
Public works	509,789	-	-
Health and social services	4,994	-	-
Culture and recreation	218,355	-	-
Community and economic development	251,901	-	-
General government	107,464	-	2,700
Debt service	199,105	-	-
Capital projects	2,215,782	-	-
Business type activities	-	192,427	-
Total disbursements	3,929,784	192,427	11,210
Excess of receipts over disbursements	(2,151,853)	119,686	17,854
Other financing sources (uses), net	2,218,245	(138,245)	-
Excess of receipts and other financing sources over disbursements and other financing uses	66,392	(18,559)	17,854
Balances beginning of year	1,438,258	501,751	-
Balances end of year	\$ 1,504,650	483,192	17,854

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
615,292	617,633	617,633	(2,341)
52,126	57,668	57,668	(5,542)
258,843	233,229	233,229	25,614
19,267	19,075	19,075	192
82,833	18,795	55,795	27,038
306,856	285,925	519,725	(212,869)
500,830	505,822	517,822	(16,992)
224,933	1,100	17,300	207,633
2,060,980	1,739,247	2,038,247	22,733
413,884	443,397	460,547	46,663
509,789	527,045	556,130	46,341
4,994	4,869	5,994	1,000
218,355	182,533	242,088	23,733
251,901	3,000	325,104	73,203
104,764	129,001	111,297	6,533
199,105	158,791	199,305	200
2,215,782	-	2,533,000	317,218
192,427	276,535	286,535	94,108
4,111,001	1,725,171	4,720,000	608,999
(2,050,021)	14,076	(2,681,753)	631,732
2,080,000	8,120	2,088,120	(8,120)
29,979	22,196	(593,633)	623,612
1,940,009	1,487,387	1,940,010	(1)
1,969,988	1,509,583	1,346,377	623,611

City of La Porte City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$5,151,711 and budgeted disbursements by \$2,994,829. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of La Porte City

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue		
	Road Use Tax	TIF	Employee Benefits
Receipts:			
Property tax	\$ -	52,126	65,557
Use of money and property	-	759	-
Intergovernmental	194,327	-	-
Miscellaneous	-	700	-
Total receipts	194,327	53,585	65,557
Disbursements:			
Operating:			
Public safety	-	-	31,930
Public works	238,108	-	19,258
Culture and recreation	-	-	8,832
Community and economic development	-	19,816	-
General government	-	-	6,087
Debt service	-	-	-
Total disbursements	238,108	19,816	66,107
Excess (deficiency) of receipts over (under) disbursements	(43,781)	33,769	(550)
Other financing sources:			
Operating transfers in (out)	27,490	(31,860)	2,000
Net change in cash balances	(16,291)	1,909	1,450
Cash balances beginning of year	193,152	6,688	(169)
Cash balances end of year	\$ 176,861	8,597	1,281

Cash Basis Fund Balances

Reserved:			
Debt service	-	-	-
Unreserved:			
Special revenue funds	176,861	8,597	1,281
Permanent fund	-	-	-
Total cash basis fund balances	\$ 176,861	8,597	1,281

See accompanying independent auditor's report

Equipment Replacement	Low to Moderate Income	Permanent	
		Trust Funds	Total
-	-	-	117,683
8,909	227	4,097	13,992
35,535	-	3,378	233,240
-	-	21,589	22,289
44,444	227	29,064	387,204
-	-	8,510	40,440
-	-	-	257,366
-	-	-	8,832
-	-	-	19,816
-	-	2,700	8,787
-	-	-	-
-	-	11,210	335,241
44,444	227	17,854	51,963
39,088	9,670	(64,504)	(18,116)
83,532	9,897	(46,650)	33,847
245,580	12,229	190,554	648,034
329,112	22,126	143,904	681,881
-	-	-	-
329,112	22,126	-	537,977
-	-	143,904	143,904
329,112	22,126	143,904	681,881

City of La Porte City
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Equipment Note	March 26, 2002	5.20%	\$ 92,200
General obligation note:			
G.O. Capital Loan Note	May 6, 2003	1.60% - 3.80%	600,000
G.O. Capital Loan Note	July 1, 2004	2.95% - 4.25%	600,000
G.O. Loan Notes	December 1, 2005	3.75% - 4.10%	2,080,000

See accompanying independent auditor's report

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
24,955	-	24,955	-	139	-
540,000	-	60,000	480,000	16,518	-
600,000	-	60,000	540,000	21,673	-
-	2,080,000	-	2,080,000	39,915	-
\$1,164,955	2,080,000	144,955	3,100,000	78,245	-

City of La Porte City
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Notes						Total
	Capital Loan Note		Capital Loan Note		Loan Note		
	Issued May 6, 2003		Issued July 1, 2004		Issued December 1, 200		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	2.40	60,000	2.95	60,000	3.75	110,000	230,000
2008	2.65	65,000	3.10	60,000	3.75	110,000	235,000
2009	3.00	65,000	3.40	65,000	3.75	115,000	245,000
2010	3.25	70,000	3.60	65,000	3.75	120,000	255,000
2011	3.40	70,000	3.80	70,000	3.75	125,000	265,000
2012	3.60	75,000	4.00	70,000	3.75	130,000	275,000
2013	3.80	75,000	4.10	75,000	3.75	130,000	280,000
2014		-	4.25	75,000	3.75	135,000	210,000
2015		-		-	3.75	140,000	140,000
2016		-		-	3.80	145,000	145,000
2017		-		-	3.85	150,000	150,000
2018		-		-	3.90	160,000	160,000
2019		-		-	3.95	165,000	165,000
2020		-		-	4.00	170,000	170,000
2021		-		-	4.10	175,000	175,000
Total		\$480,000		540,000		2,080,000	3,100,000

See accompanying independent auditor's report

City of La Porte City

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Four Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property tax	\$ 667,418	\$ 608,911	526,401	510,753
Other city tax	258,843	239,723	227,623	213,365
Licenses and permits	19,267	21,017	19,224	22,808
Use of money and property	70,627	26,705	14,861	23,291
Intergovernmental	307,978	336,072	1,143	330,320
Charges for service	210,834	182,840	289,921	149,374
Miscellaneous	<u>242,964</u>	<u>100,810</u>	<u>455,952</u>	<u>238,481</u>
Total	<u>1,777,931</u>	<u>1,516,078</u>	<u>1,535,125</u>	<u>1,488,392</u>
Disbursements:				
Operating:				
Public safety	422,394	454,592	526,398	453,134
Public works	509,789	378,959	853,197	190,071
Health and social services	4,994	1,869	1,869	1,819
Culture and recreation	218,355	277,229	257,489	206,124
Community and economic development	251,901	15,855	4,599	51,492
General government	107,464	107,212	109,594	183,215
Debt service	199,105	98,244	19,258	199,631
Capital projects	<u>2,215,782</u>	<u>485,788</u>	<u>237,640</u>	<u>104,646</u>
Total	<u>\$ 3,929,784</u>	<u>\$ 1,819,748</u>	<u>2,010,044</u>	<u>1,390,132</u>

See accompanying independent auditor's report

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters

Based on an audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 9, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of La Porte City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of La Porte City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weaknesses. The prior year reportable condition has not been resolved.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of La Porte City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of La Porte City and other parties to whom the City of La Porte City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of La Porte City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 9, 2007

City of La Porte City
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of La Porte City
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of La Porte City
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. However, disbursements did exceed amounts budgeted before the amendment was approved in the Community and Economic Development and Capital Projects areas.

Recommendation – The budget should have been amended in accordance with Chapter 384.20 before disbursements were allowed to exceed budgeted amounts.

Response – In the future, we will amend the budget before disbursements are exceeded.

Conclusion - Response accepted.

III-B-06 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jeff Larison, Treasurer	Vice President of Cedar Valley Bank	N/A
Rachel Ward, Assistant Librarian, Co-owner of Ward Auto and Truck Service	Maintenance and repair of fire and rescue vehicles	\$ 1,193
April Neuman, Council Member, Employee of Pronto Market	Gas and Kerosene	85
Cliff McFarland, Council Member, Owner of Sunshine Floral	Holiday lights purchased	60

In accordance with Chapter 362.5(3) of the Code of Iowa, the first transaction with the City Treasurer does not appear to represent a conflict of interest since the treasurer is an employee of Cedar Valley Bank.

City of La Porte City

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

In accordance with Chapter 362.5(11) of the Code of Iowa, the second, third and fourth transactions do not appear to represent a conflict of interest since the amounts are for less than \$2,500.

- III-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-06 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-H-06 Payment of General Obligation Bonds – The City properly paid for its general obligation bonds out of the Debt Service fund.

City of La Porte City

Staff

This audit was performed by:

Donald A. Snitker, CPA, Partner
Gina E. Trimble, CPA, Senior Auditor